



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 22, 2003

### **H.R. 2443** **Coast Guard Authorization Act of 2003**

*As ordered reported by the House Committee on Transportation and Infrastructure  
on June 25, 2003*

#### **SUMMARY**

H.R. 2443 would authorize the appropriation of about \$6.1 billion for programs administered by the U.S. Coast Guard (USCG) and the Federal Maritime Commission (FMC) for fiscal year 2004. The bill also would authorize the appropriation of \$10 million for 2004 and \$5 million annually through 2008 for new maritime projects. CBO estimates that appropriation of the authorized amounts would result in outlays of \$4.2 billion in fiscal year 2004 and \$6 billion over the 2004-2008 period. (About \$100 million would be spent after 2008.) Enacting H.R. 2443 would increase direct spending by \$2 million annually because it would allow the USCG to spend more of the user fees it currently collects. Finally, enacting this legislation could result in lower future revenues from recoveries of oil spill costs, but CBO has no basis for estimating the amount or timing of such losses, if any.

H.R. 2443 contains both intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the cost of installing electronic charting equipment on public vessels would not exceed the annual threshold for intergovernmental mandates as established in that act (\$59 million in 2003, adjusted annually for inflation). Because of uncertainties about the number of private vessels that would be affected by other new requirements and how certain regulations would be implemented, CBO cannot determine whether the total costs of private-sector mandates would exceed the threshold established by UMRA for such mandates (\$117 million in 2003, adjusted annually for inflation).

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary effects of H.R. 2443 are summarized in the following table. The costs of this legislation fall within budget functions 300 (natural resources and environment) and 400 (transportation).

The amount authorized by the bill for Coast Guard retirement is not included in the table because such pay is an entitlement under current law and it is not subject to appropriation.

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
USCG and FMC Spending Under Current Law						
Authorization Level <sup>a</sup>	5,294	29	0	0	0	0
Estimated Outlays	5,134	818	207	12	0	0
Proposed Changes <sup>b</sup>						
Authorization Level	0	6,093	5	5	5	5
Estimated Outlays	0	4,212	1,069	431	176	129
USCG and FMC Spending Under H.R. 2443						
Authorization Level <sup>a</sup>	5,294	6,122	5	5	5	5
Estimated Outlays	5,134	5,030	1,276	443	176	129
<b>CHANGES IN DIRECT SPENDING<sup>c</sup></b>						
Estimated Budget Authority	0	2	2	2	2	2
Estimated Outlays	0	2	2	2	2	2
<p>a. The 2003 level is the amount appropriated for that year, reduced by across-the-board reductions and by a \$17 million rescission in Capital Acquisition funds. The \$29 million in 2004 is the amount already authorized to be appropriated from the Oil Spill Liability Trust Fund for Coast Guard operating expenses and research.</p> <p>b. Included in the authorization levels and estimated outlays for proposed changes are \$10 million in 2004 and \$5 million annually through 2008 for activities to be carried out by the Department of Transportation. There were no amounts appropriated for those proposed activities in 2003.</p> <p>c. H.R. 2443 also could affect revenues, but CBO estimates that any such effects are likely to be insignificant.</p>						

## BASIS OF ESTIMATE

For this estimate, CBO assumes that the amounts authorized will be appropriated for each year. The authorization level for 2004 is the amount stated in the bill for USCG and FMC discretionary accounts, excluding \$29 million of USCG funding to be derived from the Oil Spill Liability Trust Fund (OSLTF). (This amount, which consists of \$25 million for that agency's operations and \$3.5 million for research, has been excluded from the "Proposed Changes" lines in the table because such funding is already authorized under existing law.) Estimated outlays are based on historical spending patterns for existing or similar programs.

## **Spending Subject to Appropriation**

H.R. 2443 would authorize the appropriation of about \$5 billion for USCG operating expenses (including \$17 million for environmental compliance) and about \$1.1 billion for acquisitions and other capital projects (including \$22 million for research activities and \$18 million for bridge alterations). Of the amounts authorized, \$48.5 million would be derived from the OSLTF, but \$29 is already authorized to be appropriated for trust fund in 2004. Title V would authorize the appropriation of \$18 million to the Federal Maritime Commission for 2004.

The bill would authorize the appropriation of \$1 billion for Coast Guard retirement benefits in 2004. That amount is excluded from this estimate because those benefits are considered an entitlement under current law and are not subject to appropriation.

Title VI would authorize the appropriation of \$5 million a year over the 2004-2008 period to the Secretary of Transportation for a national maritime enhancement institute for the Great Lakes region. Section 606 would authorize the Secretary to carry out a demonstration project on dual-use technologies for commercial shipping and port operations. The bill would authorize the appropriation of \$5 million for fiscal year 2004 for that purpose.

## **Direct Spending**

H.R. 2443 would expand the authority of the Coast Guard to spend amounts collected from existing user fees and similar charges. CBO estimates that enactment of the bill would increase direct spending by about \$2 million annually.

The USCG is currently authorized to spend a portion of its user fees and other charges that are sufficient to offset the cost of collecting those fees. The bill would broaden the definition of collection costs to include more indirect administrative elements such as fee-related equipment purchases and training and travel expenses. CBO estimates that the broader definition of reimbursable costs would enable the Coast Guard to retain about twice as much of its fees, resulting in new direct spending of about \$2 million annually. For this estimate, CBO assumes that the agency does not increase fee rates above those currently in effect.

## **Changes to Coast Guard Housing Authorities**

Section 207 would expand the Coast Guard's authority to finance military housing construction. At this time, CBO expects that enacting this section is unlikely to have a significant effect on the federal budget.

Under current law, the Coast Guard is authorized to use loan guarantees, barter arrangements, long-term leases, limited partnerships, and similar means to finance housing projects. Current law authorizes the appropriation of \$40 million to the Coast Guard for housing projects and mandates that the total value of all federal obligations entered into for such projects may not exceed \$40 million. That authority expires at the end of fiscal year 2007. To date, the agency has not initiated any housing projects under this authority.

It is unclear that the additional housing financing authorities that would be provided by section 207 would alleviate the Coast Guard's current housing program implementation difficulties. Therefore, CBO does not expect that the proposed changes would alter the timing or level of the costs of the USGS housing program. The two additional financing tools that would be provided—direct loans and rental differential payments—are probably no more or less useful to the Coast Guard than those it already has (but has not used) and are no more likely to be exercised. The final proposed change, which would enable the agency to directly negotiate partnerships with state and local governments, is likely to be of use only in very limited situations involving leasing of state or local land. Because of the relatively small scale of Coast Guard housing projects, the use of the new authority to obtain state or local bond financing may not be possible or particularly beneficial. Financing of this type is likely to be useful only in localities where it may be possible to participate in larger Department of Defense (DoD) projects, but the Coast Guard's legal authority to cooperate with DoD in this or any other types of joint financing is uncertain and would not be clarified or otherwise affected by the enactment of H.R. 2443.

## **Revenues**

H.R. 2443 contains two provisions that could affect revenues. Those provisions are described below.

**Recovery of Oil-Spill Expenditures.** Title VII would amend the definitions of the terms “operator” and “owner” in the Oil Pollution Act of 1990 (OPA) to exclude secondary lenders (those without management participation) and state or local governments that involuntarily acquire control or ownership of a vessel or facility involved in an oil spill.

Under current law, such involuntary owners may be held responsible for spill response and clean-up costs and held liable for damages. By explicitly excluding those entities from the law's definitions, the bill would eliminate them as potentially responsible parties that the federal government could pursue to recover spill-related costs (including paying damage claims). Therefore, future recoveries (which are recorded in the federal budget as revenues) could be lower, but CBO has no basis for estimating any such impact because litigation brought against involuntary owners is so rare. The federal government does not generally pursue those parties because it is not usually cost-effective to do so. In the past 12 years of litigation under OPA, the Coast Guard has recovered from only one secondary lender (about seven years after the spill), but the recovery was the highest in the program's history: \$47 million. There has been no similar litigation against a state or local government (in the status of an involuntary owner). Given this history, CBO expects that there would be few situations where the changes that would be made by title VII might have an impact on revenues from spill recoveries.

**Civil Penalties.** The bill also would increase civil penalties for violations of various statutes enforced by the Coast Guard. CBO estimates that enacting the higher penalties would increase federal revenues by less than \$500,000 annually.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

### **Mandates that Affect Both the Public and Private Sector**

Under current law certain, vessels must be equipped with an automatic identification system (AIS) that transmits the vessels location and certain other information. Section 411 would require the automatic identification systems to include electronic charts and related displays. Because vessel owners and operators include both public and private-sector entities, such a requirement would be both an intergovernmental and private-sector mandate as defined by UMRA. CBO cannot provide a precise estimate of the public and private-sector costs of implementing the requirement because the Coast Guard has not issued a standard for electronic charting. However, based on information from the Coast Guard about the range of cost for installing charting add-ons and the number of vessels affected, CBO estimates that the costs to public entities would not exceed the annual threshold established in UMRA (\$59 million in 2003, adjusted annually for inflation). The cost to private entities would not be substantial.

## **Mandates that Affect the Private Sector Only**

Section 302 would authorize the Secretary of Transportation to prohibit the use on the bridge of a vessel of electronic or other devices that interfere with communications and navigation equipment. Currently, the Coast Guard, under certain circumstances, can establish vessel operating conditions as it determines necessary for the control of the vessel and safety of the port or the marine environment. The provision would expand and clarify this authority. According to the Coast Guard, the authority would continue to be used under the same circumstances and only with certain devices. CBO estimates that the costs to the private sector in complying with the mandate would be minimal.

Section 401 would require charterers of documented vessels engaged in coastwise commercial trade and fishing to submit reports to the Secretary of Transportation regarding qualifications of their vessels. According to the Coast Guard, the charterers would be required to submit their operating documents to comply with the mandate. Because charterers already have their documentation available, the cost to submit the information would be minimal.

Section 410 would authorize the Secretary to prescribe maximum hours of service for individuals engaged on a towing vessel that is at least 26 feet in length measured from end-to-end over the deck. The limit on hours of service would impose a private-sector mandate on owners of the towing vessels. Currently, there is a 12-hour work rule for the industry. Any possible action by the Secretary could only occur after a demonstration project required under the bill (involving the implementation of Crew Endurance Management Systems on towing vessels) has been concluded and reported upon. At this time, the Coast Guard could not determine how or when it would establish such a limit on hours of service. Consequently, CBO cannot estimate either the costs to comply with the mandate or when such costs would be incurred.

Section 701 would impose a private-sector mandate on owners and operators of nontank vessels to prepare and submit to the President a plan for responding to a worst-case discharge, and to a substantial threat of such discharge, of oil or a hazardous substance. Any applicable state-mandated response plan would satisfy the requirement. Currently, Alaska, California, Oregon, and Washington require nontank vessels to have such plans in order to operate in their waters. Also, the International Maritime Organization (IMO) requires all vessels engaged in international shipping and transportation to have shipboard oil pollution emergency plans. According to the Coast Guard, the proposed requirement would parallel the IMO-required plans. According to industry sources, the cost of developing an oil spill response plan averages \$1,000. CBO cannot determine the number of nontank vessels which would be required to develop the oil response plans. Therefore, CBO cannot estimate the total costs to the owners and operators to comply with the mandate.

**ESTIMATE PREPARED BY:**

Federal Costs: Deborah Reis

Impact on State, Local, and Tribal Governments: Gregory Waring

Impact on the Private Sector: Cecil McPherson

**ESTIMATE APPROVED BY:**

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis